

HUDSON TECHNOLOGIES INC /NY
Form SB-2/A
August 28, 2003

As Filed with the Securities and Exchange Commission on August 28, 2003.
Registration No. 333-105128

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 3
TO
FORM SB-2

REGISTRATION STATEMENT
UNDER THE
SECURITIES ACT OF 1933

HUDSON TECHNOLOGIES, INC.
(Name of Small Business Issuer in Its Charter)

New York	5080	13-3641539
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

275 North Middletown Road
Pearl River, New York 10965
(845) 735-6000
(Address and Telephone Number of Principal Executive Offices)
(Address of Principal Place of Business or
Intended Principal Place of Business)

Kevin J. Zugibe
Chairman and Chief Executive Officer
Hudson Technologies, Inc.
275 North Middletown Road
Pearl River, New York 10965
(845) 735-6000
(Name, Address and Telephone Number of Agent for Service)

Copies of Communications to:

Robert J. Mittman, Esq.
Ethan Seer, Esq.
Blank Rome LLP
405 Lexington Avenue
New York, New York 10174
Telephone: (212) 885-5000
Telecopier: (212) 885-5001

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Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after this registration statement becomes effective.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration
Rights to purchase common stock	5,166,320	-- (2)	-- (3)
Common Stock, par value \$.01 per share	5,166,320	\$5,682,952	\$459.76
Amount previously Paid			\$459.73 (4)
Amount Due			\$ 0.03

- (1) Estimated and calculated pursuant to Rule 457 (e), solely for the purpose of computing the registration fee.
- (2) The Rights are being distributed at no cost to the registrant's stockholders of record on August 1, 2003.
- (3) Pursuant to Rule 457(g) since both the Rights and the shares of common stock issuable upon exercise of Rights are being registered for distribution under this registration statement there is no separate registration fee for the rights.
- (4) Previously paid with the initial filing of this Registration Statement on May 9, 2003 and the filing of Amendment No. 2 to the registration statement on August 1, 2003.

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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 28, 2003

PROSPECTUS

5,166,320 Shares

HUDSON TECHNOLOGIES INC.

COMMON STOCK

We are distributing, together with this prospectus, at no charge, non-transferable subscription rights to purchase shares of our common stock to persons who own our common stock as of the close of business on August 1, 2003, the record date. These are called basic subscription rights. You will not be entitled to receive any of these rights unless you were a stockholder of Hudson at that time. You will receive one subscription right for each whole share of our common stock that you owned on the record date. Each subscription right will entitle you to purchase one (1) share of our common stock at the subscription price of \$ per share. Rights may not be exercised to purchase less than 1,000 shares of our common stock. The shares in the rights offering are being offered directly by us without the services of an underwriter or selling agent.

The subscription rights are exercisable beginning on the date of this prospectus and will expire at 5:00 P.M. Eastern Time, on September __, 2003. We, at our sole discretion, may extend the period for exercising the rights. Rights which are not exercised by the expiration date will expire and will have no value. Your exercise of the rights may not be revoked unless the expiration date is extended for more than thirty days or there is a material change in the terms of the rights offering. You should carefully consider whether or not to exercise your rights before the expiration date.

If you timely exercise all of your basic subscription rights, you will be entitled to exercise over-subscription privileges to purchase additional shares of our common stock at the same subscription price. The over-subscription privilege will expire concurrently with the expiration of the basic subscription rights. Shares for which subscription rights have not been exercised prior to the expiration date of the rights offering will first be offered to members of the public at the subscription price. Provided that a certain amount of proceeds are received by Hudson in this offering, shares otherwise offered but not purchased by holders of subscription rights or by members of the public may be used to satisfy our obligations under our outstanding 10% subordinated convertible notes, which we refer to throughout this prospectus as the "Convertible Notes," held by certain of our officers, family members of our officers and directors and certain principal stockholders.

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There is no minimum number of shares which must be sold in the offering and, provided a sufficient number of shares offered under this prospectus is then available, we intend to close on sales of shares with respect to subscriptions we accept.

The subscription rights may not be sold, transferred or assigned, and will not be listed for trading on any stock exchange.

Our common stock trades on the NASDAQ SmallCap Market under the symbol HDSN. On August , 2003, the closing sale price of our common stock as reported by NASDAQ was \$_____.

Investing in our common stock is speculative and involves a high degree of risk. See "Risk Factors" beginning on page 10.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Shares of common stock available after the expiration of the period for our stockholders to exercise their basic subscription and over-subscription rights will not be offered by us to members of the public in the states of California and Ohio.

The date of this prospectus is August __, 2003

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this prospectus. Each prospective investor is urged to read this prospectus in its entirety. References in this prospectus, to "Hudson", "we", "us" and "our" refer to Hudson Technologies, Inc. and its subsidiaries.

Description of Business

Hudson Technologies, Inc., incorporated under the laws of New York on January 11, 1991, together with its subsidiaries, is a refrigerant services company providing innovative solutions to recurring problems within the refrigeration industry. Hudson's products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems, including (i) refrigerant sales, (ii) RefrigerantSide(R) Services performed at a customer's site, consisting of system decontamination to remove moisture, oils and other contaminants and (iii) reclamation of refrigerants. Hudson operates through its wholly owned subsidiary Hudson Technologies Company.

Hudson's Executive Offices are located at 275 North Middletown Road, Pearl River, New York and its telephone number is (845) 735-6000.

Description of Offering

The shares of our common stock being offered under this prospectus are initially being offered to our stockholders of record as of August 1, 2003, to whom we are distributing, at no charge, subscription rights which are each exercisable to purchase one (1) share of our common stock at a subscription price of \$ _____ per share. Stockholders who exercise all of their basic subscription rights prior to September __, 2003 will have an over-subscription

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privilege to subscribe for additional shares of our common stock also until September __, 2003. This is referred to in this prospectus as the rights offering. To the extent shares offered hereby are not subscribed for by the stockholders in the rights offering we will offer those shares to members of the public at the subscription price for a period ending on __, 2003. In either case we reserve the right to extend the rights offering and/or the offering of shares to members of the public. Provided that we receive a certain amount of proceeds from subscriptions in this offering, shares that remain unsold as of _____, 2003 may be acquired by the holders of our Convertible Notes, at their election, by the reduction of the principal amount and, if applicable, accrued and unpaid interest of their respective Convertible Notes in an amount equal to the number of shares subscribed for multiplied by the subscription price. This election must be made by the holders of the Convertible Notes not later than _____, 2003. The term "offering" as used in this prospectus includes the rights offering and the subsequent offer of remaining shares to members of the public and holders of Convertible Notes.

Questions and Answers About the Rights Offering

What is a rights offering?

A rights offering is an opportunity for you to purchase additional shares of our common stock at a fixed price and in an amount at least proportional to your existing interest.

What is a subscription right?

We are distributing to you, at no charge, one subscription right for each whole share of our common stock that you owned as a holder of record on August 1, 2003. We will not distribute any fractional subscription rights, but will round the number of subscription rights you receive up to the next largest whole number. Each whole subscription right entitles you to purchase one (1) share of our common stock for \$ _____ per share. When you "exercise" a subscription right that means that you choose to purchase the number of shares of common stock that the subscription right entitles you to purchase. You may exercise any number of your subscription rights subject to the requirement that rights may not be exercised for less than 1,000 shares of our common stock, or you may choose not to exercise any subscription rights. You cannot give away, transfer or sell your subscription rights, except by operation of law or through involuntary transfers. Consequently, except in very limited circumstances, only you will be able to exercise your subscription rights. See "About the Rights Offering-The Subscription Rights."

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What is the basic subscription privilege?

The basic subscription privilege of each whole subscription right entitles you to purchase one (1) share(s) of our common stock at a subscription price of \$ _____. See "About the Rights Offering-Basic Subscription Privilege."

What is the over-subscription privilege?

We do not expect that all of our stockholders will exercise all of their basic subscription privileges. By extending over-subscription privileges to our stockholders, we are providing for the purchase of those shares that are not purchased through exercise of basic subscription privileges. The over-subscription privilege of each subscription right entitles you, if and when you fully exercise your basic subscription privilege, to subscribe for additional shares of common stock at the subscription price. See "About the

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Rights Offering-Over-Subscription Privilege."

What are the limitations on the over-subscription privilege?

If sufficient shares are available in the rights offering, we will honor all over-subscription requests in full. If over-subscription requests exceed the number of shares available, we will allocate the available shares among stockholders who over-subscribed in proportion to the number of shares purchased by those over-subscribing stockholders through the exercise of their basic subscription privilege.

Will shares not sold as part of the rights offering be offered to other investors?

Yes. Any shares not sold as part of the rights offering will be offered by us to members of the public at the subscription price. If any of the shares being offered to the public remain unsold at the end of 50 days from the date of this prospectus and we have received at least approximately \$240,000 in proceeds from the subscriptions for shares in this offering, the holders of our Convertible Notes will be entitled to purchase shares in this offering at the subscription price through a reduction of the amount of principal and, if applicable any accrued and unpaid interest under the Convertible Notes. Holders of Convertible Notes must make an election to purchase shares no later than the 50th day from the date of this prospectus. If such an election is not timely made or if such election is timely made but a sufficient number of shares registered hereby is not available, the Convertible Notes will otherwise automatically convert into restricted shares of our common stock at prices ranging from the lesser of the subscription price or: (i) \$.79 per share with respect to up to \$665,000 principal amount of Convertible Notes, together with accrued and unpaid interest; (ii) \$1.41 per share with respect to up to \$500,000 principal amount of Convertible Notes, together with accrued and unpaid interest; and (iii) \$1.13 per share, with respect to up to \$495,000 principal amount of Convertible Notes, together with accrued and unpaid interest. These Convertible Notes are held by certain of our officers, family members of our officers and directors and two of our principal stockholders, Fleming US Discovery Fund III, L.P. and Fleming US Discovery Offshore Fund III, L.P., which are referred to collectively in this prospectus as the "Flemings Funds". Moreover, the Flemings Funds have indicated their intention that if the gross proceeds from the shares sold by us for cash in the offering to our stockholders and other investors (other than Flemings), together with the amount of principal and accrued interest due on the approximately \$1,660,000 outstanding principal amount of Convertible Notes that will be converted to common stock in connection with this offering, is less than \$2,575,000, the Flemings Funds will acquire from the shares being offered to the public that number of shares (not to exceed \$925,000) necessary for us to reach the \$2,575,000 level. Included in this amount to be acquired by the Flemings Funds is the loan from the Flemings Funds to us in the principal amount of \$575,000 for which we may use shares available under this prospectus after the expiration of the rights offering period to repay the principal and any accrued and unpaid interest of this loan. See "Use of Proceeds." The Flemings Funds may purchase additional shares offered to members of the public hereby at the subscription price. See "About the Rights Offering - Sale of Shares for Which Subscription Rights Have Not Been Exercised by Eligible Stockholders."

Although the Flemings Funds have indicated their intentions with respect to the acquisition of shares offered hereby, there is no binding obligation on them to do so. Consequently if new subscriptions from stockholders and public investors are not received (in the amount of at least approximately \$240,000) and the Flemings Funds determine not to proceed with their acquisition of up to \$925,000 of shares, we may not realize an aggregate of \$2,000,000 of gross proceeds in the offering and, as a result, the Convertible Notes will not be entitled to convert into shares of our common stock in connection with this

offering.

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Why are we engaging in a rights offering?

Our primary purpose for authorizing the rights offering was to assist us in raising capital in a cost-effective manner in order to satisfy our continuing operating expenses and working capital requirements. In determining to proceed with the rights offering our board of directors considered a number of factors including: (i) the opportunity afforded to our stockholders to participate in this equity offering and acquire additional shares of our common stock so that they would have the ability to maintain their proportional interest in us, and (ii) the limited strategic alternatives available to us for raising capital in light of the current state of the capital markets.

What is the Board of Directors recommendation regarding the rights offering?

Our Board of Directors is not making any recommendation as to whether or not you should exercise your subscription rights. You should make your decision based on your own assessment of your best interests.

How many shares may I purchase?

You will receive one subscription right for each whole share of our common stock that you owned on August 1, 2003. We will not distribute fractional subscription rights, but will round the number of subscription rights you are to receive up to the next largest whole number. Each whole subscription right entitles you to purchase one (1) share of common stock for \$. See "About the Rights Offering-Basic Subscription Privilege." If you exercise all of the subscription rights that you receive, you may have the opportunity to purchase additional shares of common stock. In your subscription agreement, you may request to purchase as many additional shares as you wish for \$ per share. Subject to compliance with applicable state securities laws, we intend to honor all of these over-subscription requests. However, you may not be able to purchase as many shares as you requested in your over-subscription request if a sufficient number of shares are not available after fulfillment of the basic subscription rights. We have the discretion to issue less than the total number of shares that may be available for over-subscription requests in order to comply with state securities laws. In the event that, as a result of the exercise of basic and over-subscription rights by our stockholders, the rights offering is over-subscribed, we will reduce the number of shares that may be purchased by each subscribing stockholder under the over-subscription privilege on a pro rata basis in proportion to the number of shares purchased by each subscribing stockholder through the exercise of their basic subscription rights. See "About the Rights Offering-Over-Subscription Privilege."

If I owned less than 1,000 shares on the record date, can I still exercise my subscription rights in the rights offering?

Yes, provided that you exercise all of your basic subscription rights and exercise at least enough over-subscription rights to reach the minimum subscription of 1,000 shares. Therefore, subscriptions of stockholders who owned less than 1,000 shares of our common stock on the record date and only exercise their basic subscription rights will not be accepted by Hudson in connection with this offering.

Moreover, stockholders who owned less than 1,000 shares on the record date should note that even if you supplement your basic subscription exercise with an over-subscription exercise in order to meet the 1,000 share minimum threshold,

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in the event that the rights offering is over subscribed we will be required to reduce the number of shares subscribed for on a proportionate basis, thereby potentially reducing the number of shares for which you have subscribed below the 1,000 share minimum threshold. In this case, we would not accept your subscription in connection with this offering.

How did we arrive at the \$ per share subscription price?

Our board of directors established a special committee consisting of Messrs. Vincent P. Abbatecola, Dominic J. Monetta, Otto C. Morch and Harry C. Schell, each of whom is an independent board member, to consider certain matters relating to the rights offering, principally the subscription price for the purchase of shares of our common stock. In furtherance of these efforts and on behalf of the special committee we retained Houlihan Lokey Howard & Zukin Financial Advisors, Inc., referenced to in this prospectus as "Houlihan Lokey," to advise the special committee with respect to a per-share price range for the subscription price for shares in the rights offering and to render an opinion to our board of directors as to the fairness, from a financial point of view, of the rights offering to our public stockholders (other than the Flemings Funds and our officers and their family members), solely in their capacity as current stockholders. In consideration for these services we have agreed to pay Houlihan Lokey a fee of \$150,000 and reimburse them for reasonable out-of-pocket expenses. A discussion of the factors considered and analysis applied by Houlihan Lokey in establishing the per-share price range for the subscription price

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in this offering as well as a description of the fairness opinion and methodologies utilized in supporting the opinion is set forth below in the section entitled "About the Rights Offering-Determination of Subscription Price and Fairness Opinion of Houlihan Lokey" on page 18.

How do I exercise my subscription rights?

You must properly complete the appropriate subscription agreement and it must be received by our subscription agent, described more fully below, before 5:00 P.M. Eastern Time on September __, 2003, which is referred to throughout this prospectus as the "Expiration Date." The address for our subscription agent is provided in this section below. See "About the Rights Offering-Exercise of Subscription Rights and Method of Payment."

How do I pay for my shares?

Your subscription agreement must be accompanied by proper payment for each share that you wish to purchase pursuant to both your basic and over-subscription privileges. See "About the Rights Offering-Exercise of Subscription Rights and Method of Payment."

How long will the rights offering last?

You will be able to exercise your subscription rights only during a limited period. If our subscription agent does not receive your properly executed subscription agreement and payment for the shares being purchased before 5:00 P.M. Eastern time on the Expiration Date the subscription rights will expire. We may, in our discretion, decide to extend the rights offering. We may also, in our discretion, decide to extend the time period for the offering of shares to members of the public. See "About the Rights Offering-Expiration Dates."

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What if my shares are not held in my name?

If you hold your shares of our common stock in the name of a broker, dealer or other nominee, then your broker, dealer or other nominee is the record holder of the shares you own. The record holder must exercise the subscription rights on your behalf for the shares of common stock you wish to purchase. Therefore, you will need to have your record holder act for you.

If you are not the record holder of your shares and you wish to participate in this rights offering and purchase shares of our common stock, please promptly contact the record holder of your shares. We will ask your broker, dealer or other nominee to notify you of this rights offering. You should complete and return to your record holder the form entitled "Beneficial Owner Election Form" or other similar election form that you should receive from your record holder with the other rights offering materials. See "About the Rights Offering-Shares Held for Others."

What fees or charges apply if I purchase shares of common stock?

We are not charging you any fee or sales commission to issue rights to you or to issue shares of our common stock to you if you exercise your rights. If you exercise your rights through the record holder of your shares, you will be responsible for paying any fees your record holder may charge you. You will not be responsible for any fees payable to our subscription agent.

To whom should I send my forms and payment?

If your shares are held in the name of a broker, dealer or other nominee, then you should send your subscription documents and payment to that record holder. If you are the record holder then you should send your subscription agreement and payment by hand delivery, first class mail or courier service to:

Continental Stock Transfer
Reorganization Department
17 Battery Place, 8th Floor
New York, New York 10004

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You are solely responsible for completing delivery to the subscription agent of your properly completed subscription agreement and your subscription payment. We urge you to allow sufficient time for delivery of your subscription materials to the subscription agent.

What should I do if I have any questions or require assistance?

If you have questions or otherwise need assistance, please contact the subscription agent for this rights offering at the following address and telephone number:

Continental Stock Transfer
Reorganization Department
17 Battery Place, 8th Floor
New York, New York 10004
Telephone: (212) 509-4000, ext. 536.

For additional copies of rights offering documents, please contact the subscription agent for this rights offering at the following address and telephone number:

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Continental Stock Transfer
Mail Room
17 Battery Place, 17th Floor
New York, New York 10004
Telephone: (212) 509-4000, ext. 252.

After I exercise my subscription rights, can I change my mind and cancel my purchase?

Except as described below, once you send in your subscription agreement and payment you cannot revoke the exercise of your subscription rights, even if you later learn information about us that you consider to be unfavorable and even if the market price of our common stock is below the \$ per share subscription price. Consequently, you should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of our common stock at a price of \$ per share. However, your exercise of subscription rights may be revoked if we extend the Expiration Date of the rights offering for more than thirty days or there is a material change in the terms of the rights offering. See "About the Rights Offering-No Revocation."

Is exercising my subscription rights risky?

The exercise of your subscription rights involves significant risks. Exercising your subscription rights means buying additional shares of our common stock and should be considered as carefully as you would consider any other equity investment. Among other things, you should carefully consider the risks described under the heading "Risk Factors," beginning on page 10.

Must I exercise any subscription rights?

No. You are not required to exercise your subscription rights or take any other action.

What happens if I choose not to exercise my subscription rights?

You will retain your current number of shares of our common stock even if you do not exercise your subscription rights. However, if other stockholders exercise their subscription rights and you do not, the percentage of Hudson that you own will diminish, and your voting and other rights will be diluted in excess of the dilution that will result from the conversion of the Convertible Notes upon the completion of this offering. See "Risk Factors-Risk Factors Relating to the Offering of Subscription Rights-Your percentage ownership of Hudson may be diluted."

Can I sell or give away my subscription rights?

No.

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What are the federal income tax consequences of exercising my subscription rights?

The receipt and exercise of your subscription rights are intended to be nontaxable events. You should seek specific tax advice from your personal tax advisor. See "Income Tax Effect of Exercising Subscription Rights."

When will I receive my new shares?

If you purchase shares of common stock through the rights offering, you

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will receive certificates or your account will be credited by an amount representing those shares as soon as practicable after the Expiration Date.

Can the Board of Directors cancel the rights offering?

Yes. The Board of Directors may decide to cancel the rights offering at any time, on or before _____, 2003, for any reason in which case we will return your payment to you without any interest. See "About the Rights Offering-Cancellation Right."

How much money will Hudson receive from the rights offering?

If we sell all the shares being offered for cash, we will receive gross proceeds of approximately \$5,680,000. If shares being offered are not sold for cash they may be issued, to the extent we receive a certain minimum amount of proceeds from new subscriptions in this offering, upon conversion of all or a portion of the approximately \$1,660,000 principal amount, as well as accrued and unpaid interest (estimated to be approximately \$100,000 as of the date of this prospectus), of our outstanding Convertible Notes. Under certain circumstances, two of our principal stockholders, the Flemings Funds, have indicated their intention to acquire up to \$925,000 of the shares that are not subscribed for in the rights offering by other stockholders or by the public in order to enable us to achieve \$2,575,000 of proceeds from shares issued in this offering. Included in this \$2,575,000 aggregate proceeds amount is the approximately \$1,660,000 principal amount of Convertible Notes that will be converted into our common stock in connection with this offering and the principal and accrued and unpaid interest on the \$575,000 loan from the Flemings Funds for which we may use shares available under this prospectus to repay the principal and interest of this loan. The Flemings Funds may purchase additional shares offered to members of the public hereby at the subscription price. There is no binding obligation on the Flemings Funds to make the acquisition of up to \$925,000 of shares in this Offering. See "About the Rights Offering-Sale of Shares for Which Subscription Rights Have Not Been Exercised by Eligible Stockholders."

How will we use the proceeds from the rights offering?

We are making this offering with the intention of raising up to approximately \$5,680,000 of gross proceeds. After payment of expenses of the offering we intend to use the net cash proceeds for (i) sales and marketing support of our service business, (ii) infrastructure support for our refrigerant sales business, and (iii) working capital and general corporate purposes. See "Use of Proceeds."

How many shares will be outstanding after the rights offering?

Although we cannot at this time determine the number of shares of common stock that will be outstanding after the rights offering and after sales to the public and in satisfaction of outstanding Convertible Notes, if we sell all of the shares registered for sale hereby in the rights offering and/or in the public offering portion then we will issue 5,166,320 shares of common stock. In that case, we will have 10,332,640 shares of common stock outstanding after the offering without giving effect to the shares of our common stock issuable upon conversion of our outstanding Convertible Notes or the 120,782 shares of outstanding Series A Preferred Stock. Although the conversion price of the Series A Preferred Stock is currently \$2.375, in accordance with applicable anti-dilution provisions, the conversion price of the Series A Preferred Stock could be adjusted downward to a conversion price equal to \$.79 upon the conversion of any of the Convertible Notes with that conversion rate. The Flemings Funds, which are the holders of all of the outstanding shares of our Series A Preferred Stock as well as \$1,256,000 aggregate principal amount of our Convertible Notes, have indicated their intention that, in the event that we receive gross cash proceeds in this offering of at least \$1,000,000 (exclusive

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of the conversion of any of the Convertible Notes and any purchases made by the Flemings Funds in the offering), the conversion rate(s) of their Convertible Notes that are below the \$ subscription price will be adjusted to equal the \$ subscription price of this offering and the conversion price of their Series A Preferred Stock will be adjusted to equal the \$ subscription price of this offering. In all cases the

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Convertible Notes held by the Flemings Funds and third-parties with a conversion rate above the \$ subscription price, will be adjusted, based on their existing anti-dilution provisions, so that the conversion rate will equal the \$ subscription price of this offering. See the section below entitled "About the Rights Offering - Adjustment of the Conversion Rate of the Convertible Notes and Conversion Price of the Series A Preferred Stock." Given the \$ subscription price for this offering, in the event we receive at least \$1,000,000 of gross cash proceeds in the offering, exclusive of the conversion of any Convertible Notes or purchases of shares made by the Flemings Funds, we will be required to issue additional shares of our common stock as a result of the conversion of the outstanding Convertible Notes, and the holders of the Series A Preferred Stock will be entitled to convert the Series A Preferred Stock into an aggregate of 10,980,181 shares of our common stock.

In the event we do not raise \$1,000,000 in gross cash proceeds in this offering, exclusive of the conversion of Convertible Notes or purchases of shares made by the Flemings Funds, the conversion rate of the Convertible Notes held by the Flemings Funds will not be adjusted to equal the \$ subscription price of the offering and we would be required to issue an additional _____ shares of our common stock upon conversion of the principal and accrued interest of the Convertible Notes in connection with this offering. Similarly, the conversion price of the Series A Preferred Stock would not be adjusted to equal the \$ subscription price of this offering but would be adjusted to equal the lowest conversion rate of our outstanding Convertible Notes upon their conversion. The lowest conversion rate of the Convertible Notes is currently \$.79 per share in which case up to an additional 15,288,860 shares of common stock would be issued upon conversion of all of the outstanding shares of Series A Preferred Stock.

In addition, pursuant to the terms of the Convertible Notes, upon the consummation of this offering and provided that the minimum amount of \$2,000,000 in proceeds, including the conversion of the outstanding Convertible Notes is received by us, we will issue common stock purchase warrants to the holders of Convertible Notes, which warrants will be exercisable to purchase an amount of shares of our common stock equal to 10% of the number of shares of common stock into which the Convertible Notes were convertible at the time of their issuance. These warrants will be exercisable for a period of five years from the date of their issuance at exercise prices ranging from \$.87 to \$1.21. See the section below entitled "About the Rights Offering-Warrants to be Issued to Holders of Convertible Notes."

What if I have more questions?

If you have more questions about the rights offering, please contact our President, Brian F. Coleman, at 275 North Middletown Road, Pearl River, New York 10965, or by telephone at (845) 735-6000.

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SUMMARY FINANCIAL DATA

The following table presents summary historical financial data. We have derived the audited summary financial data as of and for the two-year period ended December 31, 2002 and the unaudited summary financial data as of and for the six months ended June 30, 2003 and 2002 from the consolidated financial statements and notes thereto included elsewhere in this prospectus. The following selected financial data are qualified in their entirety by reference to, and you should read the information contained in this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the notes to those consolidated financial statements contained elsewhere in this prospectus.

(In thousands except share and per share amounts)

	Six Months Ended June 30,		Year Ended December 31,	
	2003	2002	2002	
Revenues	\$ 10,741	\$ 12,880	\$ 19,963	\$
Operating expenses	3,884	3,946	7,911	
Net loss	(941)	(315)	(2,522)	
Available for common shares	(1,370)	(709)	(3,318)	
Net loss per common share	(0.27)	(0.14)	(0.64)	
Weighted average number of shares outstanding	5,165,103	5,157,228	5,162,228	5,

Balance Sheet Data:

	June 30, 2003	June 30, 2003	December 31, 2002
	(as adjusted for offering)	(unaudited)	
Cash and cash equivalents	\$ 5,473	\$ 273	\$ 545
Working capital (deficit)	5,832	632	(11)
Total assets	13,986	8,786	8,422
Total long-term obligations	2,369	2,369	1,171
Total Stockholders' equity	5,863	663	1,508

The as adjusted Balance Sheet Data as of June 30, 2003 represents the financial results if Hudson was to receive all of the net cash proceeds (\$5,200,000) contemplated in this prospectus.

RISK FACTORS

The shares offered by this prospectus are speculative and involve a high degree of risk. In addition to other information in this prospectus, you should carefully consider the following risk factors before making an investment decision.

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Risk Factors Relating to Hudson

We have incurred significant historical losses and expect to continue to incur losses in the future.

Since inception, we have incurred significant losses, including net losses of \$2,522,000 and \$2,399,000 for the fiscal years ended December 31, 2002 and 2001, respectively, and a net loss of \$941,000 for the six months ended June 30, 2003. At June 30, 2003, we had an accumulated deficit of \$31,167,000. Losses are continuing through the date of this prospectus. Inasmuch as we will continue to have a high level of operating expenses following this offering and anticipate that we will incur additional expenditures in connection with any expansion of our RefrigerantSide(R) Services or other business, we anticipate that we will continue to incur losses until we generate revenues sufficient to offset our operating costs. We may not be able to generate significant revenues or ever achieve profitable operations.

The proceeds from this offering may not be sufficient to meet our capital requirements and we may need additional subsequent financing which may not be readily available to us.

Our capital requirements have been and will continue to be significant. We are dependent on the proceeds of this offering in order to continue our operations as currently conducted during the near term. There is no minimum amount of rights that must be exercised before a closing may occur and our stockholders or other prospective investors will not know whether all or a portion of the shares of common stock offered hereby have been sold. To the extent that less than all of the shares offered hereby are sold, we will have less resources available to us. See the section below entitled "Use of Proceeds." Consequently, the amount of proceeds we will raise in this offering may not be sufficient to satisfy our future cash requirements. Although the reorganization of our RefrigerantSide(R) Services business, to focus on vertical markets, is aimed at increasing our efficiencies and reducing our expenses, in the long term we expect to incur additional expenses in the development and implementation of this business strategy. In addition, unanticipated declines in revenues or increases in operating costs could require resources substantially greater than the proceeds available to us from this offering. As a result, we may be required to seek additional equity or debt financing in order to meet these increased operating expenses. We have no current arrangements with respect to, or sources of, additional financing, which if available to us, may not be on acceptable terms. Our inability to obtain additional capital financing when needed could materially adversely affect our business and financial condition and could require us to curtail or otherwise cease our existing operations.

The nature of our business exposes us to potential liability.

The refrigerant recovery and reclamation industry involves potentially significant risks of statutory and common law liability for environmental damage and personal injury. We, and in certain instances, our officers, directors and employees, may be subject to claims arising from our on-site or off-site services, including the improper release, spillage, misuse or mishandling of refrigerants classified as hazardous or nonhazardous substances or materials. We may be strictly liable for damages, which could be substantial, regardless of whether we exercised due care and complied with all relevant laws and regulations. Our current insurance coverage may not be sufficient to cover potential claims and adequate levels of insurance coverage may not be available in the future at a reasonable cost. A partially or completely uninsured claim against us, if successful and of sufficient magnitude, would have a material adverse effect on us.

We may not be successful in pursuing our contemplated growth strategy.

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Our business objective is to seek to expand our RefrigerantSide(R) Services business, which expansion is subject to the availability of adequate financing and will be largely dependent upon our ability to profitably operate our existing business and implement our vertical market penetration of certain industries in which we intend to co-market our RefrigerantSide(R) Services. We may not be successful in the implementation of this strategy.

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Our business and financial condition is substantially dependent on the sale and continued environmental regulation of chlorofluorocarbons, or CFCs.

Our sales of refrigerants continue to represent a significant portion of our revenues. Most of our refrigerant sales, however, are CFC based refrigerants which are no longer manufactured. Our inability to source CFC based refrigerants for resale would have a material adverse effect on our financial condition and result of operations. Moreover, our business and prospects are largely dependent upon continued regulation of the use and disposition of refrigerants containing CFCs. Changes in government regulations relating to the emission of refrigerants containing CFCs into the atmosphere could have a material adverse effect on us. Failure by government authorities to otherwise continue to enforce existing regulations or significant relaxation of regulatory requirements could also adversely affect demand for our services and products.

Our business is subject to significant regulatory compliance burdens.

The refrigerant reclamation and management business is subject to extensive, stringent and frequently changing federal, state and local laws and substantial regulation under these laws by governmental agencies, including the United States Environmental Protection Agency, the United States Occupational Safety and Health Administration and the United States Department of Transportation. Although we believe that we are in substantial compliance with all material regulations relating to our material business operations, amendments to existing statutes and regulations or adoption of new statutes and regulations which affect the marketing and sale of refrigerants could require us to continually alter our methods of operation and/or discontinue the sale of certain of our products resulting in costs to us that could be substantial. We may not be able, for financial or other reasons, to comply with applicable laws, regulations and permitting requirements, particularly as we seek to enter into new geographic markets. Our failure to comply with applicable laws, rules or regulations or permitting requirements could subject us to civil remedies, including substantial fines, penalties and injunctions, as well as possible criminal sanctions, which would materially adversely impact our operations and financial condition.

As a result of the intense competition, and the strength of some of our competitors in the market, we may not be able to compete effectively.

The markets for our services and products are highly competitive. We compete with numerous regional and national companies which provide refrigerant recovery and reclamation services, as well as companies which market and deal in reclaimed and alternative refrigerants, including certain of our suppliers, some of which possess substantially greater financial, technical, marketing, personnel and other resources than us. We also compete with numerous manufacturers of refrigerant recovery and reclamation equipment. Certain of these competitors have established reputations for success in the service of air conditioning and refrigeration systems. We may not be able to compete successfully, particularly as we seek to enter into new markets.

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A number of factors could negatively impact the price and/or availability of used refrigerants which would, in turn, adversely affect our business and financial condition.

Our business is substantially dependent on the availability of used refrigerants in large quantities and the corresponding demand for reclaimed refrigerants which may be affected by several factors, including limitations on commercial production and use imposed by government regulation as the introduction and commercial use of new refrigerants and air conditioning and refrigeration equipment, price competition resulting from additional market entrants and changes in government regulation, particularly regulations repealing or imposing taxes on the use of refrigerants. Although we believe that sufficient quantities of used domestic refrigerants will continue to be available to us at a reasonable cost for the foreseeable future, we do not maintain agreements with any of our domestic suppliers to obtain refrigerants from time to time in the ordinary course of business. Sufficient amounts of used refrigerants may not be available to us in the future or may be available on commercially unreasonable terms. Additionally, we may be subject to price fluctuations, periodic delays or shortages of used refrigerant or current levels of demand for reclaimed refrigerants may decrease. Our failure to recover and reclaim refrigerants for customers or to otherwise obtain, reclaim and resell sufficient quantities of refrigerants would have a material adverse effect on our operating margins and results of operations.

The loss of key management personnel would adversely impact our business.

Our success is largely dependent upon the efforts of our Chief Executive Officer and Chairman, the loss of the services of which would have a material adverse effect on our business and prospects.

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Proceeds from this offering applied to working capital may be allocated at the discretion of management.

A substantial portion of the proceeds from this offering has been allocated to working capital and general corporate purposes. Accordingly, our management will have broad discretion as to the application of any such proceeds.

We have the ability to designate and issue preferred stock which may have rights, preferences and privileges greater than our common stock and which could impede a subsequent change in control of Hudson.

Our Certificate of Incorporation authorizes our Board of Directors to issue up to 5,000,000 shares of "blank check" preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares, without further shareholder approval. A total of 150,000 of the shares of preferred stock have been designated as Series A Convertible Preferred Stock, 120,782 shares of which are currently outstanding. The rights of the holders of our common stock will be subject to and may be adversely affected by the rights of holders of any additional preferred stock that may be issued in the future. Our ability to issue preferred stock without shareholder approval could have the effect of making it more difficult for a third party to acquire a majority of our voting stock, thereby delaying, deferring or preventing a change in control of Hudson.

If our common stock were delisted from NASDAQ it would be subject to "penny stock" rules which could negatively impact its liquidity and our stockholders' ability to sell their shares.

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Our common stock is currently listed on NASDAQ. We must comply with numerous NASDAQ MarketPlace rules in order to continue the listing of our common stock on NASDAQ and we are currently not in compliance with a NASDAQ MarketPlace rule relating to our maintaining a specified level of stockholders' equity. As a result, by notice dated August 14, 2003, NASDAQ notified us that our common stock would be delisted from NASDAQ on August 25, 2003. We have appealed NASDAQ's determination to delist and have requested a hearing with NASDAQ which will stay the delisting of our common shares pending a determination at the hearing. If our common stock is no longer traded on NASDAQ the common stock would be subject to certain rules promulgated under the Securities Exchange Act of 1934, which require additional disclosure by broker-dealers in connection with any trades involving a stock defined as a penny stock which, subject to certain exceptions, is any non-NASDAQ equity security that has a market price of less than \$5.00 per share. Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith, and impose various sales practice requirements on broker-dealers who sell penny stock to persons other than established customers and accredited investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transactions prior to sale. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our common stock, which could severely limit the market liquidity of our common stock.

The issuance of our common stock in this offering will trigger adjustment of the conversion price of our Series A Preferred Stock, which, if converted, would have a substantially dilutive effect on the ownership interests of our common stockholders.

Our Series A Preferred Stock provides for anti-dilution adjustment of the conversion price in the event of the issuance by Hudson of securities for consideration per share less than the then effective conversion price of the Series A Preferred Stock. The holders of our outstanding Series A Preferred Stock have agreed that in the event we receive gross cash proceeds in this offering of more than \$1,000,000 (exclusive of the conversion of any Convertible Notes and any purchases made by the Flemings Funds in the offering), the conversion price of the Series A Preferred Stock will be adjusted to equal the per share consideration received by Hudson in connection with this offering. In the event we do not receive gross cash proceeds of \$1,000,000 in this offering (exclusive of the conversion of any Convertible Notes and any purchases made by the Flemings Funds in the offering), the conversion price of the Series A Preferred Stock will be adjusted downward to equal the per share consideration received by us for any subsequent issuance of securities below the current \$2.375 per share conversion price or the lowest conversion rate of our outstanding Convertible Notes upon their conversion, which lowest conversion rate is currently \$.79 per share. Any downward adjustment of the conversion price of the Series A Preferred Stock would result in further dilution to the interests of Hudson's common stockholders upon conversion of the Series A Preferred Stock. Moreover, the percentage ownership of Hudson by existing common stockholders will decrease as a result of the issuance of shares upon conversion of the Convertible Notes in connection with this offering.

Based on the current conversion rate of the Series A Preferred Stock, the holders of these shares effectively control the affairs of Hudson.

The holders of our Series A Preferred Stock own approximately 49.6% of our

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outstanding common stock on a fully diluted, as converted basis, based upon the current \$2.375 conversion price of the Series A Preferred Stock. Moreover, any downward adjustment of the conversion price below the current \$2.375 conversion price of the Series A Preferred Stock will result in a substantial increase of the ownership percentage of Hudson by the holders of the Series A Preferred Stock. Accordingly, such persons acting together, will be in a position to significantly effect, and potentially fully control Hudson and the election of our directors and generally direct Hudson's affairs. There is no provision for cumulative voting for directors.

The trading price of our common stock has been and is likely to continue to be volatile.

The trading price of our common stock is subject to significant volatility, which is due, in part, to the lack of liquidity from our shares. This lack of liquidity may continue for the foreseeable future.

Disclosures of our operating results, announcements of regulatory changes affecting our business, other factors affecting our operations and general conditions in the securities markets unrelated to our operating performance may cause the market price of our common stock to change significantly over short periods of time. In addition, sales of shares under this prospectus may have a depressive effect on the market price of our common stock.

Risk Factors Relating to the Offering of Subscription Rights

The market price of our common stock may decline after you have committed to purchase our common stock.

The market price of our common stock may increase or decline before the subscription rights expire. Once you exercise your subscription rights, you may not revoke the exercise. Therefore, if you exercise your subscription rights and the market price of the common stock goes below the \$ subscription price, then you will have committed to buy shares of common stock in the rights offering at a price that is higher than the price at which our shares could be purchased in the open market. Moreover, you may not be able to sell the shares of common stock that you purchase in our rights offering at a price equal to or greater than the subscription price.

Your percentage ownership of Hudson may be diluted.

If you do not exercise all of your basic subscription rights, you may suffer significant dilution of your percentage ownership of Hudson relative to stockholders who fully exercise their subscription rights in addition to any dilution that will result from any purchases of shares by the public and the conversion of our Convertible Notes. For example, if you own 5,000 shares of common stock before the rights offering, or approximately 0.1% of the equity of Hudson, and you exercise none of your subscription rights while all other subscription rights are exercised and purchased for cash through the basic subscription privilege and/or over-subscription privilege, then the percentage ownership represented by your 5,000 shares will be reduced to approximately 0.05%. After giving effect to the automatic conversion of our outstanding Convertible Notes upon completion of this offering, your percentage ownership of Hudson will be further reduced.

You may not be able to sell your shares of common stock immediately upon expiration of the rights offering.

Until certificates are delivered, or your account is credited for the purchased shares after expiration of the rights offering, you may not be able to sell the shares of our common stock that you purchase in the rights offering. Certificates representing shares of our common stock that you purchased will be

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delivered and/or your account will be credited as soon as practicable after September __, 2003, the Expiration Date of the rights offering, which may be extended by Hudson.

The rights offering may be canceled and funds returned without interest.

If we elect to cancel the rights offering, we will have no obligation with respect to the subscription rights except to return, without interest, any subscription payments.

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You will not earn interest on any funds delivered to us to exercise your subscription rights.

We will not pay you interest on funds delivered to us pursuant to your exercise of rights regardless of the length of time during which we hold your subscription payment.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this section and elsewhere in this prospectus constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Hudson to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, changes in the markets for refrigerants (including unfavorable market conditions adversely affecting the demand for, and the price of refrigerants), regulatory and economic factors, seasonality, competition, litigation, the nature of supplier or customer arrangements which become available to Hudson in the future, adverse weather conditions, possible technological obsolescence of existing products and services, possible reduction in the carrying value of long-lived assets, estimates of the useful life of its assets, potential environmental liability, customer concentration, the ability to obtain financing, and other risks detailed in this prospectus. The words "believe", "expect", "anticipate", "may", "plan", "should" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

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USE OF PROCEEDS

In the event that all of the shares offered hereby are sold for cash, we expect to use the net cash proceeds of this offering, which are estimated to be approximately \$5,200,000 after payment of the expenses of this offering, as follows:

Purpose	Approximate Dollar Amount
Sales and marketing	\$2,400,000
Capital expenditures	750,000
Working capital	2,050,000
Total	\$5,200,000

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In the event that less than all of the shares offered hereby are sold for cash, we currently intend to allocate the net proceeds in the priority of the following categories: (i) working capital; (ii) sales and marketing; and (iii) capital expenditures.

Capital expenditures will generally be applied to the updating and/or acquiring of equipment and machinery used in Hudson's refrigerant and reclamation business, RefrigerantSide(R) Services business at its remaining service depots, as well as pursuant to strategic alliances that Hudson is seeking to establish in the implementation of its vertical markets strategy.

Working capital will be applied toward general and administrative expenses, and the further exploration, testing and recovery process development as described below under the section entitled "Our Business" beginning on page 39. We may use a portion of the proceeds allocated to working capital to pay down a portion of our borrowings under our existing credit facility with Keltic Financial Partners, LP, or "Keltic," and/or repay some or all of the \$575,000 principal amount of our loan arrangement with the Flemings Funds which is due to mature in May 2006. We entered into the Keltic credit facility and Flemings Funds loan arrangement in May 2003 and each loan arrangement currently bears interest annually at the rate of 6.5%. We have used the proceeds from these borrowings principally for working capital and general corporate purposes. We may seek to use shares registered hereby and available after expiration of the rights offering period for the repayment of certain of our outstanding obligations including the loan arrangement with the Flemings Funds.

Our indicated allocation of the net cash proceeds of this offering represents our best estimates based upon our currently proposed plans and assumptions relating to our operations and certain assumptions regarding general economic conditions. If any of these factors change, we may find it necessary or advisable to reallocate some of the cash proceeds within the categories set forth above or use portions of those proceeds for other purposes.

In addition to shares which may be sold for cash, certain of the shares offered for sale by us under this prospectus may be acquired by the holders of our Convertible Notes, at their election, through the reduction of the principal and, if applicable accrued and unpaid interest in an amount equal to the number of shares subscribed for, multiplied by the subscription price. There currently is approximately \$1,660,000 outstanding principal amount of Convertible Notes which Convertible Notes were issued by us between December 2002 and April 2003. These Convertible Notes bear interest at 10% per annum and to the extent they are convertible in connection with this offering but an election for conversion into shares offered hereby is not timely made, or is timely made but a sufficient number of shares offered hereby is unavailable due to stockholder and public investor subscriptions, these Convertible Notes will otherwise automatically convert into restricted shares of our common stock upon the consummation of this offering. The proceeds we received from the issuance of the Convertible Notes were used for working capital and general corporate purposes.

MARKET PRICE FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Hudson's common stock traded from November 1, 1994 to September 20, 1995 on the NASDAQ SmallCap Market under the symbol 'HDSN'. From September 20, 1995 through May 12, 2002, the common stock traded on the NASDAQ National Market. Since May 13, 2002, the common stock has traded on the NASDAQ SmallCap Market. There can be no assurance that, in the future, Hudson will be able to meet the requirements necessary for continued listing of its common stock on the NASDAQ SmallCap Market. The following table sets forth, for the periods indicated the

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range of the high and low sale prices for the common stock as reported by NASDAQ.

	High	Low
	----	---
2001		
o First Quarter	\$2.53	\$1.50
o Second Quarter	\$3.50	\$1.80
o Third Quarter	\$3.25	\$1.90
o Fourth Quarter	\$4.13	\$2.01
2002		
o First Quarter	\$3.95	\$2.60
o Second Quarter	\$3.10	\$1.80
o Third Quarter	\$2.09	\$0.85
o Fourth Quarter	\$1.70	\$0.56
2003		
o First Quarter	\$1.75	\$1.20
o Second Quarter	\$2.72	\$.97
o Third Quarter (through August ____, 2003)	\$2.00	\$1.52

The number of record holders of Hudson's common stock was approximately 250 as of August 1, 2003. Hudson believes that there are in excess of 4,000 beneficial owners of its common stock.

To date, Hudson has not declared or paid any cash dividends on its common stock. The payment of dividends if any, in the future is within the discretion of Hudson's Board of Directors and will depend upon Hudson's earnings, its capital requirements and financial condition, borrowing covenants, and other relevant factors. Hudson presently intends to retain all earnings, if any, to finance Hudson's operations and development of its business and does not expect to declare or pay any cash dividends in the foreseeable future. In addition, Hudson has a credit facility with Keltic which, among other things, restricts Hudson's ability to declare or pay any cash dividends on its capital stock. The Series A Preferred Stock carries a dividend rate of 7% and as such has a dividend preference over the common stock. Hudson pays dividends, in arrears, on the Series A Preferred Stock, semi annually, either in cash or additional shares, at Hudson's option. To date Hudson has paid, and expects that it will continue to pay, dividends on the Series A Preferred Stock in additional shares.

ABOUT THE RIGHTS OFFERING

The Reason for the Rights Offering

We are offering the subscription rights to our current stockholders with the intention of raising up to \$5,682,952 of gross proceeds. After payment of expenses and any fees or commissions of this offering, we intend to use the net cash proceeds of this offering for (i) sales and marketing support of our service business (ii) infrastructure support for our refrigerant sales business and (iii) working capital and general corporate purposes. Our Board of Directors has chosen to give you the opportunity to buy more shares and provide us with additional capital. This right provides each stockholder the opportunity to avoid additional dilution of their ownership interest, at least insofar as this current financing is concerned. However, our stockholders will experience dilution of their ownership interest as a result of the conversion of our Convertible Notes upon completion of this offering. Of course, we cannot assure you that we will not need to seek additional financing in

the future that could result in dilution of your ownership and your ownership interest will be diluted as a result of the conversion of our outstanding Convertible Notes in connection with this offering.

The Subscription Rights

Without cost to you, we are distributing to you an instrument known as a "subscription right." You will receive one non-transferable subscription right for each whole share of our common stock you owned as of August 1, 2003, which we arbitrarily established as the "record date" for the rights offering. Each subscription right will entitle you, at your option, to purchase one (1) share of our common stock at the "subscription price," which we have established as \$ _____ per share. Should you elect to exercise your rights to subscribe, meaning that you choose to purchase the common stock offered to you, you may do so only on the terms and conditions of the offering.

You may exercise any number of your subscription rights subject to your subscribing to purchase a minimum of 1,000 shares, or you may choose not to exercise any subscription rights. You cannot give or sell your subscription rights to anyone; only you can exercise them. If not exercised, your right will expire at 5:00 P.M. Eastern Time on September __, 2003, the Expiration Date. Prior to that date and time, the Board of Directors may cancel the rights offering for any reason. After that date, the subscription rights will expire and will no longer be exercisable. There is no minimum that we must sell to complete the offering. The rights offering and any other sales of shares under this prospectus is being made on an "any or all basis," which means that we may accept payment for shares sold pursuant to any subscription received even if all of the shares of common stock offered are not subscribed for in the offering.

Except as described below, once you submit your subscription agreement to our subscription agent together with your payment, you may not revoke your subscription, even if you subsequently learn unfavorable information about Hudson or if the market price of our common stock declines to below the subscription price of the shares. You may revoke your prior subscription for our shares only in the event that we extend the Expiration Date of this rights offering for more than thirty days or there is a material change in the terms of this offering.

Basic Subscription Privilege

Each whole subscription right will entitle you to receive, upon payment of \$ _____ per subscription right, one (1) share of our common stock. You will receive certificates, or your account will be credited by an amount representing shares that you purchase pursuant to your basic subscription privilege, as soon as practicable after the Expiration Date, whether you exercise your subscription rights immediately prior to the Expiration Date or earlier.

Over-Subscription Privilege

Subject to the allocation described below, your subscription right also grants you an over-subscription privilege to purchase additional shares of common stock that are subject to basic subscription rights not exercised by other stockholders. You are entitled to exercise your over-subscription privilege only if you exercise your basic subscription privilege in full.

If you wish to exercise your over-subscription privilege, you should indicate the number of additional shares that you would like to purchase in the space provided on your subscription agreement or Beneficial Owner Election Form, as the case may be. When you send in your subscription documents, you must also send the full purchase price for the number of additional shares that you have

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requested to purchase through your over-subscription privilege, which payment is in addition to the payment due for shares purchased through your basic subscription privilege. If we receive over-subscription requests for a number of shares greater than the number of shares available, we will allocate the available over-subscription shares to the over-subscribers in the same proportion that their basic subscription shares bears to the total of basic subscriptions. Regardless of the proportion, however, you will not receive more over-subscription shares than you actually apply for, although you may receive fewer. We have the discretion to issue less than the total number of shares that may be available for over-subscription requests in order to comply with state securities laws.

As soon as practicable after the Expiration Date, we will determine the number of shares of common stock that you may purchase pursuant to the over-subscription privilege. You will receive certificates, or your account will be credited by an amount, representing these shares as soon as practicable after the Expiration Date. We have the discretion to delay allocation and distribution of any and all shares to stockholders who elect to participate in the rights offering and are affected by state securities laws, if any, including shares that we issue with respect to basic or over-subscription privileges, in order to comply

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with such regulations. If you request and pay for more shares than are allocated to you, we will refund that overpayment, without interest. In connection with the exercise of the over-subscription privilege, banks, brokers and other nominee holders of subscription rights who act on behalf of beneficial owners will be required to certify to us as to the aggregate number of subscription rights that have been exercised, and the number of shares of common stock that are being requested through the over-subscription privilege, by each beneficial owner on whose behalf the nominee holder is acting.

No Recommendation

We are not making any recommendations as to whether or not you should exercise your subscription rights. You should make your decision based on your own assessment of your best interests.

Expiration Dates

The rights will expire at 5:00 P.M. Eastern Time, on September __, 2003, unless we decide to extend the rights offering. If you do not exercise your subscription rights prior to that time, your subscription rights will be null and void. We will not be required to issue shares of common stock to you if our subscription agent receives your subscription agreement or your payment after that time, regardless of when you sent the subscription agreement and payment. In addition we may, in our discretion, determine to extend the time period during which we may offer shares to members of the public.

Board of Directors' Withdrawal Right

Our Board of Directors may withdraw or cancel the rights offering in its sole discretion at any time prior to or on the Expiration Date for any reason including, without limitation, a change in the market price of our common stock. If we withdraw the rights offering, any funds you paid will be refunded, without interest or penalty.

Determination of Subscription Price and Fairness Opinion of Houlihan Lokey

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Pursuant to an engagement letter dated July 9, 2003, we retained Houlihan Lokey on behalf of, and to advise, the special committee of our board of directors initially with respect to the possible range of per share subscription prices in the rights offering and, upon the special committee's request, to render an opinion as to the fairness, from a financial point of view, of the rights offering to our public common stockholders (other than the Flemings Funds and our officers and their family members) solely in their capacity as current stockholders. Houlihan Lokey had multiple meetings and conference calls with members of the special committee, including an introductory conference call July 2, 2003 for preliminary discussions and due diligence purposes and a meeting on July 10, 2003. At the July 24, 2003 meeting of the special committee of our board of directors, Houlihan Lokey presented its analysis with respect to a per-share price range for the subscription price for shares in the rights offering and subsequently delivered its July 25, 2003 fairness analysis. On August 26, 2003, Houlihan Lokey met with the Special Committee to update its presentation to give effect to the Company's financial information as of and for the six months ended June 30, 2003. On August 26, 2003, Houlihan Lokey delivered its written opinion that, as of such date and based on the matters described in the opinion, the rights offering was fair, from a financial point of view, to our public stockholders (other than the Flemings Funds and our officers and their family members), solely in their capacity as current stockholders. Houlihan Lokey's opinion, dated August 26, 2003, speaks only as of that date, and Houlihan Lokey does not have any obligation to update, revise or reaffirm its opinion.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. The following is a brief summary and general description of the valuation methodologies utilized by Houlihan Lokey. The summary does not purport to be a complete statement of the analyses and procedures applied, the judgments made or the conclusion reached by Houlihan Lokey, or a complete description of its presentations to the special committee on July 24, 2003 and August 26, 2003. Houlihan Lokey advised the special committee on that date that Houlihan Lokey's analyses must be considered as a whole, and that selecting portions of its analyses and of the factors considered by it, without considering all factors and analyses, could create an incomplete view of the process underlying its analyses and opinions.

Houlihan Lokey's opinion and financial analyses were only one of a number of factors considered by our board of directors in their evaluation of the transaction, and was not the sole determinative factor in the board's decision with respect to proceeding with the rights offering.

THE COMPLETE TEXT OF HOULIHAN LOKEY'S OPINION IS ATTACHED TO THIS PROSPECTUS AS ANNEX A. THE BRIEF SUMMARY AND GENERAL DESCRIPTION OF THE VALUATION METHODOLOGIES SET FORTH BELOW IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE OPINION. YOU ARE URGED TO

READ THE OPINION CAREFULLY IN ITS ENTIRETY FOR A DESCRIPTION OF THE PROCEDURES FOLLOWED, THE FACTORS CONSIDERED AND THE ASSUMPTIONS MADE BY HOULIHAN LOKEY.

Houlihan Lokey's opinion to the special committee addresses only the fairness of the rights offering, from a financial point of view, to our public stockholders (other than the Flemings Funds and our officers and their family members), solely in their capacity as current stockholders, and does not constitute a recommendation to the stockholders as to whether or not they should participate in the rights offering. Houlihan Lokey's opinion does not address our underlying business decision to affect the rights offering.

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In connection with the preparation of its opinion, Houlihan Lokey made certain reviews, analyses and inquiries as it deemed necessary and appropriate under the circumstances. Among other things, Houlihan Lokey:

1. reviewed our Form 10-K's for each of the fiscal years ended December 31, 1999 through December 31, 2002;
2. reviewed our Form 10-Q's for the quarters ended March 31, 2002 through March 31, 2003;
3. reviewed our registration statement, of which this prospectus formed a part, in its amended form as filed with the Securities and Exchange Commission on June 13, 2003 and August 1, 2003;
4. met with certain members of our senior management to discuss our operations, financial condition, future prospects and projected operations and performance;
5. reviewed forecasts and projections prepared by our management with respect to Hudson for the years ended December 31, 2003 through 2007;
6. reviewed other publicly available financial data for certain companies that Houlihan Lokey deemed comparable to Hudson;
7. reviewed the historical market trading prices and trading volume for our common stock;
8. reviewed certain agreements between us and The BOC Group PLC;
9. reviewed certain other public rights offering;
10. reviewed certain management presentations regarding our business plan; and
11. conducted such other studies, analyses and investigations as Houlihan Lokey deemed appropriate.

In connection with its engagement on behalf of the special committee, Houlihan Lokey relied upon and assumed, without independent verification, that the forecasts and projections provided to it had been reasonably prepared and represented our currently available estimates of our future financial results and condition for the periods covered by the forecasts and projections, and that there has been no material change in our assets, financial condition, business or prospects since the date of the most recent financial statements made available to Houlihan Lokey. In addition, Houlihan Lokey assumed that Flemings Funds will purchase up to \$2.175 million of Common Stock (including shares of Common Stock which we may issue to Flemings Funds from shares available under this prospectus after the expiration of the rights offering period to repay the \$575,000 principal amount loan and any accrued and unpaid interest thereon and shares of Common Stock which we may issue upon conversion of the Convertible Notes) in the Rights Offering, to the extent that such amount in the aggregate is not purchased by other parties and that the rights offering and related transactions would be effectuated on substantially the same terms as described in the form of this prospectus included in our draft of Amendment No. 2 to the registration statement, filed with the SEC on August 1, 2003.

As part of its analysis, Houlihan Lokey, among other things, (i) reviewed the current and recent historical trading prices and volume of our common stock, (ii) examined our existing capital structure, (iii) performed an independent analysis of our intrinsic common stock value both under our existing capital

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structure and on a pro forma basis under various potential outcomes of the rights offering, (iv) reviewed other publicly announced rights offerings between May 1999 to June 2003, (v)

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considered the current status of our NASDAQ small-cap listing requirements, and (v) considered certain financing alternatives to the proposed rights offering.

The following is a brief summary and general description of the material financial analyses performed by Houlihan Lokey in connection with rendering its opinion.

Analysis and Valuation of the Company's Common Stock

As part of its analysis, Houlihan Lokey performed an independent valuation of our common stock, both under our existing capital structure and on a pro forma basis assuming completion of the rights offering, in each case by using two widely accepted valuation methodologies. The first valuation methodology is the market multiple method, which involves the multiplication of various earnings and cash flow measures by appropriate risk-adjusted multiples determined by analyzing the comparable multiples for other public companies in the same or similar businesses. The second method is the discounted cash flow valuation analysis in which management's financial projections are used to estimate the future cash flows of a company as well as an estimate of a terminal value for such company at the end of the projection period. The cash flows and the terminal value of the company are discounted at an appropriate risk-adjusted rate of return to determine their present value. Another approach, the comparable transaction method, which involves multiples of earnings and cash flow, may also be employed in certain cases as a third valuation methodology. Multiples used in this approach are determined through an analysis of completed transactions involving controlling interests in companies with operations similar to the subject company's business operations. Houlihan Lokey did not use the comparable transaction method due to the lack of a sufficient number of transactions that it considered comparable.

Market Multiple Valuation Analysis

We are primarily engaged in providing solutions and services regarding the refrigeration systems of commercial, industrial and governmental customers. Due to the lack of a sufficient number of publicly traded companies in the refrigeration services industry, Houlihan Lokey considered public companies whose primary lines of business involve providing facilities services, waste remediation, and environmental services to commercial, industrial and governmental customers. The publicly traded companies that Houlihan Lokey considered included: ABM Industries, Inc.; Clean Harbors, Inc.; Duratek, Inc.; Perma-Fix Environmental Services, Inc.; Synagro Technologies, Inc.; Team, Inc. and TRC Companies, Inc.

Houlihan Lokey analyzed multiples of revenues, earnings before interest and taxes, or "EBIT" and earnings before interest, taxes, depreciation and amortization, or "EBITDA" for these companies. To derive the relevant multiples, revenue, EBIT and EBITDA earnings levels of the public companies were compared to their enterprise value (equal to the trading value of equity plus the book value of debt, less cash on the balance sheet).

The multiples of latest twelve month revenue for these companies ranged from 0.13 to 1.43 times revenue, with a median of 0.83 times. Multiples for these companies of projected fiscal 2003 revenue ranged from 0.14 to 1.34 times, with a median of 0.88 times.

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The multiples of latest twelve month EBITDA for these companies ranged from 4.0 to 10.0 times, with a median of 6.7 times. Multiples for these companies of projected fiscal 2003 EBITDA ranged from 3.7 to 11.6 times, with a median of 5.4 times.

The multiples of latest twelve month EBIT for these companies ranged from 5.0 to 24.0 times, with a median of 8.7 times. Multiples for these companies based on projected fiscal 2003 ranged from 4.7 to 14.5 times, with a median of 8.3 times.

As part of its analysis, Houlihan Lokey analyzed the float and trading volume for our common stock. Houlihan Lokey calculated the public float as a percent of total shares outstanding, as well as the ratio of average daily trading volume (over the most recent 90 days) to float and total shares outstanding. Houlihan Lokey then compared our ratios to the same ratios for the selected public companies. This analysis showed that we have a lower percentage of public float to shares outstanding relative to these companies, and our average daily trading volume as a percentage of public float was at or below the low end of the range of the selected public companies Houlihan Lokey considered.

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Discounted Cash Flow Valuation Analysis

Houlihan Lokey relied on management's long term financial projections through December 31, 2007. The financial projections contemplated (i) the successful implementation of management's new business strategy of targeting higher margin commercial and industrial customers in specific industries, (ii) a reduced cost structure resulting from the closure of many of our nationwide depots and focusing our sales and marketing efforts, and (iii) the successful implementation of our recent agreement with The BOC Group PLC.

Houlihan Lokey assessed the risk associated with the successful execution of our long term financial projections and applied a discount rate developed through an analysis of rates of return on alternative investment opportunities on investments in companies with similar risk characteristics.

Our terminal value at the end of the projection period was determined by applying a risk adjusted multiple to the projected EBITDA in the terminal year (2007) of the projections. The terminal EBITDA multiple was selected in line with the multiples observed in the comparable public companies.

Intrinsic Valuation Conclusions

Houlihan Lokey considered both the Market Multiple Valuation Analysis and the Discounted Cash Flow Valuation Analysis to assess the intrinsic value of our common stock under our current capital structure, before the rights offering. Based on approximately 22.1 million common shares outstanding on a fully diluted basis (i.e. assuming the conversion of our Series A Preferred Stock into common stock at a conversion rate of \$0.79 per share in accordance with its existing rights, and the conversion of the Convertible Notes at their various current conversion rates of between \$0.79 and \$1.41 per share of common stock) Houlihan Lokey determined that the current intrinsic value of our common stock is reasonably stated in the range of \$0.95 to \$1.03 per share.

On a pro forma basis, assuming completion of the rights offering, depending upon the amount of funds raised in the rights offering from sources other than the Flemings Funds, and depending upon the resulting adjustment to the conversion rate of our Series A Preferred Stock and of our Convertible

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Notes, based upon a range of approximately 18.6 million to 23.0 million shares of common stock outstanding on a fully diluted basis, the intrinsic value of our common stock could be reasonably stated in the range of \$0.96 to \$1.28 per share.

Analysis of Other Rights Offerings

Houlihan Lokey reviewed 55 other publicly announced rights offerings between May 1999 and June 2003. With respect to the discount to the market price for shares of the securities offered in these rights offerings, Houlihan Lokey observed a median discount of 10.0% and a mean discount of 9.6% and an overall range among the 55 rights offerings from a discount of 88.8% to a premium of 109.8% to the market price of the securities offered.

Among the 55 rights offerings reviewed, Houlihan Lokey identified 23 rights offerings in which the rights offered were not transferable. For these offerings, Houlihan Lokey observed a median discount of 8.1% and a mean discount of 15.1% with an overall range from a discount of 88.8% to a premium of 44.9% to the market price of the securities offered.

Houlihan Lokey compared our rights offering's 31.3% discount to the July 28, 2003 closing price of our common stock of \$1.60 per share with the mean and median discounts observed in the rights offerings reviewed. The 31.3% discount to market exceeds the mean and median discounts observed in both the rights offerings generally and the rights offerings with non-transferable rights, but the 31.3% discount to market falls within the overall ranges observed.

Additional Analysis

Houlihan Lokey also considered, among other things, (i) the range of the intrinsic value per share of our common stock under our existing capital structure, compared to such pro forma range of value after the rights offering, (ii) the potential dilution or accretion of the existing public common stockholders' percentage of equity ownership, on a fully diluted basis, as a result of the rights offering, and (iii) our viable financing alternatives to the rights offering.

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Houlihan Lokey also compared the potential effect of the rights offering on the value of our common stock to the potential effect on the value of our stock of the most likely financing alternatives to the rights offering. The alternatives considered included (i) a status quo scenario in which we continued to operate in the absence of the rights offering or any similar transaction, and (ii) raising capital from a third party investor.

In considering these alternatives, Houlihan Lokey considered, among other things, ownership dilution to public common stockholders, our ability to fund our current business plan, our current capital structure and our future ability to maintain our NASDAQ SmallCap listing.

In comparing the rights offering to these alternatives, Houlihan Lokey considered, among other things, the following:

- o under the rights offering, we may raise additional capital to fund our business plan;
- o our current deficiency in our NASDAQ listing requirements;
- o the rights offering may be less dilutive to existing public

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shareholders than the status quo alternative or other financing options; and

- o the rights offering may help simplify our existing complex capital structure

Based on its analysis, Houlihan Lokey concluded that the rights offering is fair, from a financial point of view, to our public common stockholders (other than the Flemings Funds and our officers and their family members) solely in their capacity as current stockholders.

Houlihan Lokey was not requested to, and did not, solicit third party indications of interest in financing, or acquiring all or any part of Hudson. Houlihan Lokey did not independently verify the accuracy and completeness of the information supplied to it with respect to Hudson, and does not assume any responsibility with respect to such information. Houlihan Lokey was not requested to, and did not, make an independent evaluation or appraisal of our properties or assets. Houlihan Lokey's analysis was based on business, economic, market and other conditions as they existed and could be evaluated by Houlihan Lokey at the date of its opinion.

Houlihan Lokey is a nationally recognized investment banking firm with expertise in, among other things, valuing businesses and securities and rendering fairness opinions. Houlihan Lokey has extensive experience in valuing businesses and securities in connection with mergers and acquisitions, leveraged buyouts, private placements of debt and equity, corporate reorganizations, employee stock ownership plans, and other transactions or purposes. The special committee selected Houlihan Lokey because of its experience and expertise in performing valuations and fairness analysis. Houlihan Lokey does not beneficially own any interest in Hudson. Furthermore, Houlihan Lokey has no agreement or understanding to provide additional services to us beyond the scope of this fairness opinion.

Houlihan Lokey does not make a market in our publicly traded securities. Houlihan Lokey is engaged, from time to time, to provide financial advice to a variety of public and private entities and persons. Although not in the present transaction, Houlihan Lokey has previously rendered, may be currently rendering, and may in the future render, certain services to JP Morgan Partners, and its affiliates.

Fees and Expenses.

We have agreed to pay Houlihan Lokey a fee of \$150,000 plus reasonable out-of-pocket expenses (including the reasonable expenses of its legal counsel) incurred in connection with its services to us in connection with the rights offering (including the rendering of its fairness opinion). No portion of the fee was contingent upon approval or completion of the rights offering or the conclusions set forth in Houlihan Lokey's opinion. We have further agreed to indemnify Houlihan Lokey and certain other parties affiliated or associated with Houlihan Lokey against certain claims, liabilities and expenses related to or arising in connection with the rendering by Houlihan Lokey of its services as described above.

Non-Transferability of Subscription Rights

Except in the limited circumstances described below, both the basic subscription rights and over-subscription rights are non-transferable and non-assignable. Only you may exercise these rights.

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Notwithstanding the foregoing, your rights may be transferred by operation of law or through involuntary transfers. For example, a transfer of rights to the estate of the recipient upon the death of the recipient would be permitted. If the rights are transferred as permitted, evidence satisfactory to us that the transfer was proper must be received by us prior to the Expiration Date of the rights offering.

Subscription Agent

The subscription agent for this offering is Continental Stock Transfer & Trust Company. The address to which subscription agreements and payments, other than wire transfers, should be mailed or delivered is Continental Stock Transfer & Trust Company, Reorganization Department, 17 Battery Place, 8th Floor, New York, New York 10004. If you deliver subscription agreements in a manner different than that described in this prospectus, we may not honor the exercise of your subscription privileges.

You should direct any questions or requests for assistance concerning the method of subscribing for the shares of common stock to the subscription agent, at Continental Stock Transfer & Trust Company, Reorganization Department, 17 Battery Place, 8th Floor, New York, New York 10004 or by telephone at (212) 509-4000, ext. 536. For additional copies of this prospectus you may direct your requests to the subscription agent, attention "Mail Room" or contact the subscription agent by telephone at (212) 509-4000 ext.252.

Fractional Shares of Common Stock and Fractional Rights

We will not issue any fractional shares of common stock in this offering. Rights may not be divided in any manner that would create fractional rights. Banks, trust companies, securities dealers and brokers that hold shares of our common stock as nominees for more than one beneficial owner may have the applicable subscription rights divided by the subscription agent or may, upon proper showing to the subscription agent, exercise their rights on the same basis as if the beneficial owners were record holders on the record date. We reserve the right to deny any division of subscription rights if, in our opinion, the result would be inconsistent with the intent of this privilege.

Exercise of Subscription Rights and Method of Payment

Our stockholders may exercise their subscription rights by delivering to our subscription agent the following, all of which must be received by our subscription agent on or prior to the Expiration Date:

- o a properly completed and duly executed subscription agreement;
- o any required signature guarantees; and
- o payment in full of \$ per share for the shares of common stock subscribed for by exercising basic subscription rights and, if desired, over-subscription rights.

You should deliver your subscription agreement and payment to our subscription agent at the address set forth under the subsection "Subscription Agent" above on or prior to the Expiration Date of the subscription period. We will not pay you interest on funds delivered to us pursuant to the exercise of rights. If you hold shares of our common stock in street name and receive rights through a broker, dealer, commercial bank, trust company or other nominee, or if you hold common stock certificates and would prefer to have an institution conduct the transaction relating to the rights on your behalf, you should contact the appropriate nominee or institution and request that it conduct the subscription transaction for you. In most cases you will receive a "Beneficial

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Owner Election Form" or other form of election to subscribe for shares of common stock which you will be required to complete and return to your holder or other nominee in accordance with their instructions, together with any applicable payment of the subscription price as such holder or nominee may require.

Payment for the shares must be made by check or bank draft (cashier's check) drawn upon a United States bank or a postal, telegraphic or express money order payable to the order of "Continental Stock Transfer & Trust Company as agent for Hudson Technologies, Inc." Payment for basic subscription rights and over-subscription rights may also be affected through a wire transfer as described below.

Payment will be deemed to have been received by us only upon:

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- o clearance of any uncertified check;
- o receipt by our subscription agent of any certified check or bank draft drawn upon a U.S. bank or of any postal, telegraphic or express money order;
- o receipt by our subscription agent of any funds transferred by wire transfer; or
- o receipt of funds by our subscription agent through an alternative payment method approved by our subscription agent.

Please note that funds paid by uncertified personal check may take at least ten business days to clear. Accordingly, if you wish to pay by means of an uncertified personal check, we urge you to make payment sufficiently in advance of the Expiration Date to ensure that the payment is received and clears before that date. We are not responsible for any delay in payment and urge you to consider payment by means of a certified or cashier's check, money order or wire transfer.

If you choose to wire transfer funds for payment you are urged to send your subscription agreement by overnight delivery no later than the date of your wire transfer to assure proper matching with your payment and in any event, in time for delivery on or prior to September __, 2003. A wire transfer of funds is to be made to the account maintained by the subscription agent for that purpose at J.P. Morgan Chase, Account No. _____, ABA No. _____ at _____, New York, New York _____.

Any wire transfer of funds should clearly indicate the identity of the subscriber who is paying the subscription price by the wire transfer and should be confirmed by a telephone call to the subscription agent. You should contact the subscription agent at Continental Stock Transfer, Reorganization Department, 17 Battery Place, 8th Floor, New York, New York 10004, (212) 509-4000, ext. 536 for further specific payment instructions. In addition, we request that you provide the name and ABA routing number of the originating bank and the date of your wire transfer where indicated in your subscription agreement.

You should read the instructions accompanying the subscription agreement carefully and strictly follow it. DO NOT SEND SUBSCRIPTION AGREEMENTS OR PAYMENTS TO US. We will not consider your subscription received until the subscription agent has received delivery of a properly completed and duly executed subscription agreement and payment of the full subscription amount. The risk of delivery of all documents and payments is yours or your nominee's, not ours or the subscription agent's.

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The method of delivery of subscription agreements and payments of the subscription amount to the subscription agent will be at the right of the rights holders, but, if sent by mail, we recommend that you send the subscription agreement and payment by FedEx, other overnight courier or by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription agent and clearance of payment before the Expiration Date of the subscription period.

Signature Guarantee

Signatures on the subscription agreement do not need to be guaranteed if either the subscription agreement provides that the shares of common stock to be purchased are to be delivered directly to the record owner of such subscription rights, or the subscription agreement is submitted for the account of a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States. If a signature guarantee is required, signatures on the subscription agreement must be guaranteed by an Eligible Guarantor Institution, as defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended. Eligible Guarantor Institutions include banks, brokers, dealers, credit unions, national securities exchanges and savings associations.

Shares Held for Others

If you are a broker, a trustee or a depository for securities, or you otherwise hold shares of our common stock for the account of a beneficial owner of our common stock, you should notify the beneficial owner of such shares as soon as possible to obtain instructions with respect to their subscription rights. If you are a beneficial owner of our common stock held by a

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holder of record, such as a broker, trustee or a depository for securities and you wish to participate in this rights offering, you should contact the record holder and ask him or her to effect transactions in accordance with your instructions.

Ambiguities in Exercise of Subscription Rights

If you do not specify the number of subscription rights being exercised on your subscription agreement, or if your payment is not sufficient to pay the total purchase price for all of the shares that you indicated you wish to purchase, you will be deemed to have exercised the maximum number of subscription rights that could be exercised for the amount of the payment that we receive from you. If your payment exceeds the total purchase price for all of the subscription rights shown on your subscription agreement, your payment will be applied, until depleted, to subscribe for shares of common stock in the following order:

1. to subscribe for the number of shares, if any, that you indicated on your subscription agreement that you wished to purchase through your basic subscription privilege;
2. to subscribe for shares of common stock until your basic subscription privilege has been fully exercised;
3. to subscribe for additional shares of common stock pursuant to the over-subscription privilege, subject to any applicable

proration.

In any case, the allocation of your payment remains subject to the minimum share purchase requirements set forth below, such that if your payment would not cover the purchase of at least 1,000 shares in this offering, your subscription and payment would not be accepted and would be returned to you without interest or deduction. In the event such payment is sufficient to meet the minimum share purchase requirement any excess payment remaining after the foregoing allocation will be returned to you as soon as practicable by mail, without interest or deduction.

Regulatory Limitation

We will not be required to issue you shares of common stock pursuant to the rights offering if, in our opinion, you would be required to obtain prior clearance or approval from any state or federal regulatory authorities to own or control such shares if, at the time the subscription rights expire, you have not obtained such clearance or approval.

State and Foreign Securities Law

The rights offering is not being made in any state or other jurisdiction in which it is unlawful to do so, nor are we selling to you or accepting any offers to purchase any shares of common stock from you if you are a resident of any such state or other jurisdiction. We may delay the commencement of the rights offering in certain states or other jurisdictions in order to comply with the securities law requirements of such states and other jurisdictions. It is not anticipated that there will be any changes in the terms of the rights offering. In our sole discretion, we may decline to make modifications to the terms of the rights offering requested by certain states or other jurisdictions, in which case shareholders who live in those states or jurisdictions will not be eligible to participate in the rights offering.

Minimum Share Purchase Requirement

We will only accept subscriptions in this rights offering for the purchase of a minimum of 1,000 shares of our common stock. Stockholders who exercise all of their basic subscription rights may subscribe for an unlimited number of additional shares under their over-subscription privilege subject to state regulatory approval and our proportionate reduction of subscriptions in the event of over-subscription of the offering. Therefore, stockholders who, as a result of their share ownership on the record date, receive basic subscription rights for less than 1,000 shares of our common stock may still participate in the rights offering by exercising all of their basic subscription rights and a sufficient amount of over-subscription rights which, in the aggregate, exceeds the minimum 1,000 purchase requirement. Nevertheless, in the event this rights offering is over-subscribed we will be required to reduce, on a proportionate basis, the number of shares that may be purchased by each subscribing stockholder as part of the over-subscription privilege. Consequently, stockholders with basic subscription rights for less than 1,000 shares who have exercised over-subscription rights necessary to meet the 1,000 share purchase

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requirement may, solely as a result of our proportionate adjustment of over-subscriptions, be subsequently reduced below the 1,000 share purchase requirement, in which case we would not accept that stockholder's subscription.

Our Decision Regarding Certain Matters Binding on You

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All questions concerning the timeliness, validity, form and eligibility of any exercise of subscription rights will be determined by us, and our determinations will be final and binding. In our sole discretion, we may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any subscription right by reason of any defect or irregularity in such exercise. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. We will not be under any duty to notify you of any defect or irregularity in connection with the submission of a subscription agreement or incur any liability for failure to give such notification.

It is not anticipated that we will give notice to you of any defects in your subscription, if any, but we reserve the right to do so, and to condition the re-submission of your subscription upon such conditions as we deem necessary or appropriate under the circumstances. Under no circumstance, however, will we be obligated to give you notification of defects in your subscription. No exercise of rights will be accepted until all defects have been cured or waived. If your exercise is rejected, any payments made on account of this offering will be returned as soon as practicable without penalty or interest.

No Revocation

Except as described below, after you have exercised your basic subscription privilege and, if applicable, your over-subscription privilege and delivered the appropriate payment, YOU MAY NOT REVOKE THAT EXERCISE EVEN IF THE SUBSCRIPTION PERIOD HAS NOT YET ENDED. However, your exercise of subscription rights may be revoked if we extend the Expiration Date of the rights offering for more than thirty days or there is a material change in the terms of the rights offering. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of our common stock.

Delivery of Subscribed Shares

If you purchase shares of common stock through the rights offering, you will receive certificates or your account will be credited by an amount representing those shares as soon as practicable after the Expiration Date.

Fees and Expenses

We are offering shares of our common stock through the issuance of rights directly to our stockholders as of the record date. Upon the expiration of the rights offering period we intend to solicit offers and sales of shares registered hereby and available to members of the public, subject to applicable state securities regulations. Certain of our officers, directors and employees may participate in the offer and sale of shares to the public but will receive no compensation or remuneration for those efforts. We will not engage any NASD member firm to participate in the offer and sale of shares in the rights offering or in the public portion of this offering. You will be responsible for paying any commissions, fees, taxes or other expenses incurred in connection with your exercise of the subscription rights. Hudson will not pay such expenses.

Sales of Shares for Which Subscription Rights Have Not Been Exercised by Eligible Stockholders

Any shares not sold as part of the rights offering will be offered by us to members of the public at the subscription price. If any of the shares being offered to the public remain unsold at the end of 50 days from the date of this prospectus and we have received at least approximately \$240,000 in proceeds from the subscriptions for shares in this offering, the holders of our Convertible Notes will be entitled to purchase shares in this offering at the subscription

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price through a reduction of the amount of principal and, if applicable, any accrued and unpaid interest under the Convertible Notes. Holders of Convertible Notes must make an election to purchase shares no later than the 50th day from the date of this prospectus. If such an election is not timely made or if an election is timely made but a sufficient number of shares registered hereby is not available, the Convertible Notes will otherwise automatically convert into restricted shares of our common stock at prices ranging from the lesser of the subscription price or: (i) \$.79 per share with respect to up to \$665,000 principal amount of Convertible Notes, together with accrued and unpaid interest; (ii) \$1.41 per share with respect to up to \$500,000 principal amount of Convertible Notes, together with accrued and unpaid interest; and (iii) \$1.13 per share, with respect to up to \$495,000 principal amount of

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Convertible Notes, together with accrued and unpaid interest. These Convertible Notes are held by certain of our officers and their family members and two of our principal stockholders, the Flemings Funds. Moreover, the Flemings Funds have indicated their intention that if gross proceeds from the shares sold by us for cash in the offering to our stockholders and other investors (other than Flemings), together with the amount of principal and accrued interest due on the approximately \$1,660,000 outstanding principal amount of Convertible Notes that will be converted to common stock in connection with this offering, is less than \$2,575,000, the Flemings Funds will acquire from the shares being offered to the public that number of shares (not to exceed \$925,000) necessary for us to reach the \$2,575,000 level. Included in this amount to be acquired by the Flemings Funds is the loan from the Flemings Funds to us in the principal amount of \$575,000 for which we may use shares available under this prospectus to repay the principal and accrued and unpaid interest of this loan. The Flemings Funds may also purchase additional shares offered to members of the public at the subscription price.

Although the Flemings Funds have indicated their intentions with respect to the acquisition of shares offered hereby, there is no binding obligation on them to do so. Consequently if new subscriptions from stockholders and public investors are not received (in the amount of at least approximately \$240,000) and the Flemings Funds determine not to proceed with their acquisition of up to \$925,000 of shares, we may not realize an aggregate of \$2,000,000 of gross proceeds in the offering and, as a result, the Convertible Notes will not be entitled to convert into shares of our common stock in connection with this offering.

Adjustment of the Conversion Rate of the Convertible Notes and Conversion Price of the Series A Preferred Stock

The Flemings Funds have indicated their intention to modify the terms of the Convertible Notes that they hold, such that if (A) the gross proceeds from the shares sold by us for cash in the offering to our stockholders and other investors (other than the Flemings Funds, and not including the amount of principal and accrued interest due on the approximately \$1,660,000 outstanding principal amount of Convertible Notes that may be converted to common stock in connection with this offering), is at least \$1,000,000 and (B) the then effective conversion rate of the Convertible Notes held by the Flemings Funds is less than the \$ subscription price, then the conversion rate of the Convertible Notes held by the Flemings Funds shall be equal to the \$ subscription price. As described above, in accordance with the existing terms of the Convertible Notes, in the event that the then-effective conversion rate of the Convertible Notes is greater than the \$ subscription price, the conversion rate of the Convertible Notes held by the Flemings Funds and all other holders shall be equal to the \$ subscription price (and such terms

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shall remain in place).

In December 2002, the Flemings Funds agreed to waive their rights to an immediate downward adjustment of the then effective \$2.375 conversion price of the Series A Preferred Stock in connection with the issuance of the Convertible Notes; however, any subsequent conversion of the Convertible Notes will result in a downward adjustment of the conversion price of the Series A Preferred Stock to equal the then effective conversion rate at which the Convertible Notes convert. Consequently, upon conversion of certain of the Convertible Notes at the \$.79 per share conversion rate, the anti-dilution provisions of the Series A Preferred Stock will cause the conversion price of the Series A Preferred Stock to adjust downward to a conversion price of \$.79 per share. See "Certain Transactions." In accordance with the terms of the Series A Preferred Stock, the Flemings Funds have the right (but not the obligation) to convert any or all shares of Series A Preferred Stock into our common stock.

The Flemings Funds have indicated their intention to modify the terms of the Series A Preferred Stock held by the Flemings Funds, such that:

(1) If (A) the gross proceeds from the shares sold by us for cash in the offering to our stockholders and other investors (other than the Flemings Funds, and not including the amount of principal and accrued interest due on the approximately \$1,660,000 outstanding principal amount of Convertible Notes that may be converted to common stock in connection with this offering), is at least \$1,000,000 and (B) the then effective conversion price of the Series A Preferred Stock is less than the \$ subscription price, then the conversion price of the Series A Preferred Stock shall be equal to the \$ subscription price. As described above, in accordance with the existing terms of the Series A Preferred Stock, in the event that the conversion price of the Series A Preferred Stock is greater than the \$ subscription price, then the conversion price of the Series A Preferred Stock shall be equal to the \$ subscription price, and

(2) If the gross proceeds from the shares sold by us for cash in the offering to our stockholders and other investors (other than the Flemings Funds, and not including the amount of principal and accrued interest due on the approximately \$1,660,000 outstanding principal amount of Convertible Notes that may be converted to common stock in

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connection with this offering), is more than \$4,000,000, then the Flemings Funds will convert all of the outstanding shares of Series A Preferred Stock into restricted common stock, at the conversion price described in the foregoing paragraph (1).

In addition, the Flemings Funds have agreed to waive their "piggyback" registration rights with respect to the registration of the shares of common stock underlying the Series A Preferred Stock in this offering, which waiver does not in any way limit the registration rights of the Flemings Funds in any other offering or as otherwise permitted under the registration rights agreement we entered into with the Flemings Funds at the time of their purchase of the Series A Preferred Stock. As part of this rights offering process we requested the Flemings Funds affirm that, for a period of six months from the date of this prospectus, they will not take any action that would cause Hudson to engage in a going private transaction, which affirmation has been received from the Flemings Funds.

Warrants to be Issued to Holders of Convertible Notes

In accordance with the terms of the Convertible Notes we will issue common

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stock purchase warrants to the holders of Convertible Notes upon the earlier of the first anniversary of the respective date of issuance of the Convertible Notes or the consummation of a public equity offering which, when aggregating the outstanding principal and accrued interest of the Convertible Notes and all additional proceeds from new investors, equals gross proceeds of not less than \$2,000,000. See the section below entitled "Description of Securities." Consequently upon the consummation of the rights offering for such gross proceeds we will be required to issue common stock purchase warrants to the holders of the Convertible Notes which warrants will be exercisable to purchase an amount of shares of our common stock equal to 10% of the number of shares of common stock into which the Convertible Notes were convertible at the time of their issuance. Pursuant to the terms of the Convertible Notes, the warrants will have an exercise price equal to 110% of the lesser of (i) the conversion rate of the Convertible Notes on the date of their issuance or (ii) the conversion rate of the Convertible Notes on the date of the issuance of the warrants.

The Flemings Funds have agreed that if the conversion rate of their Convertible Notes is increased to equal the \$ subscription price as a result of our receipt of at least \$1,000,000 of gross cash proceeds from the sale of shares to our stockholders and other investors in this offering (other than the Flemings Funds, and not including the amount of principal and accrued interest due on the approximately \$1,660,000 outstanding principal amount of Convertible Notes that may be converted into common stock in connection with the offering), then the exercise price on any warrants they receive, to the extent such exercise price is lower than the \$ subscription price, will be raised to equal the \$ subscription price. Furthermore, in the event that the exercise price of the warrants held by the Flemings Funds is increased to equal the \$ subscription price, but the exercise price of warrants issued to any other holder(s) of Convertible Notes is lower than the \$ subscription price, the Flemings Funds have agreed to waive their right in this instance to decrease the conversion rate of their Convertible Notes and the conversion price of their Series A Preferred Stock to such lower price.

Shares of Our Common Stock Outstanding After the Rights Offering

Assuming we issue all of the shares of common stock offered in the rights offering, 10,332,640 shares of our common stock will be issued and outstanding. This would represent a 100% increase in the number of outstanding shares of our com